

AEROSONIC CORP /DE/
Form 10-Q
June 11, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended April 27, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-11750

AEROSONIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

74-1668471
(I.R.S. Employer Identification No.)

1212 North Hercules Avenue
Clearwater, Florida 33765

(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: (727) 461-3000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Not Applicable (Former name, former address and former fiscal year, if changed since last report)

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Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 18, 2007, the issuer had 3,567,515 shares of Common Stock outstanding, net of treasury shares.

PART I**FINANCIAL INFORMATION**

Item 1	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of April 27, 2007 (unaudited) and January 31, 2007</u>	4
	<u>Condensed Consolidated Statements of Operations for the three months ended April 27, 2007 and April 28, 2006 (unaudited)</u>	5
	<u>Condensed Consolidated Statements of Stockholders' Equity for the three months ended April 27, 2007 (unaudited)</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended April 27, 2007 and April 28, 2006 (unaudited)</u>	7
	<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	8
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4	<u>Controls and Procedures</u>	16

PART II**OTHER INFORMATION**

Item 1	<u>Legal Proceedings</u>	17
Item 1A	<u>Risk Factors</u>	17
Item 2	<u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	17
Item 3	<u>Defaults Upon Senior Securities</u>	17
Item 4	<u>Submission of Matters to a Vote of Security Holders</u>	17
Item 5	<u>Other Information</u>	17
Item 6	<u>Exhibits</u>	17

Table of Contents

PART I FINANCIAL INFORMATION

Forward-Looking Statements

THIS REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE INTENDED TO BE COVERED BY THE SAFE HARBORS CREATED THEREUNDER. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS MAY, WILL, SHOULD, EXPECT, ANTICIPATE, ESTIMATE, CONTINUE, PLANS, INTENDS AND WORDS OF IMPORT. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD BE INACCURATE. THEREFORE, THE COMPANY S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS. ADDITIONALLY, ACTUAL RESULTS MIGHT BE AFFECTED BY CERTAIN FACTORS SET FORTH HEREIN IN MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE PUBLICLY ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS**

AEROSONIC CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,578,000	\$ 1,276,000
Receivables, net of allowance for doubtful accounts of \$10,000 and \$10,000	4,242,000	5,214,000
Income taxes receivable	9,000	13,000
Inventories	5,753,000	5,809,000
Prepaid expenses	335,000	332,000
Deferred income taxes	1,030,000	1,030,000
	<u>13,947,000</u>	<u>13,674,000</u>
Total current assets	13,947,000	13,674,000
Property, plant and equipment, net	3,141,000	3,340,000
Deferred income taxes	656,000	656,000
Other assets, net	64,000	65,000
	<u>64,000</u>	<u>65,000</u>
Total assets	<u>\$ 17,808,000</u>	<u>\$ 17,735,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Long-term debt and notes payable due within one year	\$ 230,000	\$ 230,000
Accounts payable, trade	1,309,000	1,102,000
Compensation and benefits	855,000	933,000
Income taxes payable	66,000	29,000
Accrued expenses and other liabilities	1,583,000	1,692,000
	<u>4,043,000</u>	<u>3,986,000</u>
Total current liabilities	4,043,000	3,986,000
Long-term debt and notes payable due after one year	2,274,000	2,334,000
Deferred income taxes	6,000	6,000
FIN 48 Liability	225,000	-
Other liabilities	145,000	143,000
	<u>145,000</u>	<u>143,000</u>
Total liabilities	<u>6,693,000</u>	<u>6,469,000</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock \$.40 par value: authorized 8,000,000 shares; issued 3,998,282 shares at April 27, 2007 and at January 31, 2007; outstanding 3,567,515 shares at April 27, 2007 and 3,565,373 shares at January 31, 2007	1,602,000	1,602,000
Additional paid-in capital	4,698,000	4,686,000
Retained earnings	7,978,000	8,141,000
Less treasury stock: 430,767 shares at April 27, 2007 and at January 31, 2007, at cost	(3,163,000)	(3,163,000)

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	April 27, 2007	January 31, 2007
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Total stockholders' equity	11,115,000	11,266,000
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 17,808,000	\$ 17,735,000
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these condensed consolidated financial statements

Table of Contents**AEROSONIC CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

	Three months ended	
	April 27, 2007	April 28, 2006
Revenues, net	\$ 6,825,000	\$ 8,481,000
Costs and expenses:		
Cost of revenues	5,050,000	5,739,000
Selling, general and administrative expenses	1,861,000	2,131,000
Total costs and expenses	6,911,000	7,870,000
Gain on sale of property, plant and equipment	264,000	33,000
Operating income	178,000	644,000
Other income (expense):		
Interest expense, net	(40,000)	(29,000)
Miscellaneous income	-	3,000
	(40,000)	(26,000)
Income before income taxes	138,000	618,000
Income tax expense	(76,000)	(35,000)
Net income	\$ 62,000	\$ 583,000
Basic earnings per share	\$ 0.02	\$ 0.16
Diluted earnings per share	\$ 0.02	\$ 0.15
Basic weighted average shares outstanding	3,567,515	3,751,127
Diluted weighted average shares outstanding	3,579,692	3,764,352

The accompanying notes are an integral part of these condensed consolidated financial statements

Table of Contents

AEROSONIC CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)

For the Three Months Ended April 27, 2007

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
Balance at January 31, 2007	\$ 1,602,000	\$ 4,686,000	\$ 8,141,000	\$ (3,163,000)	\$ 11,266,000
Net Income	-	-	62,000	-	62,000
Effect of adoption of FIN 48	-	-	(225,000)	-	(225,000)
Equity-based compensation	-	12,000	-	-	12,000
Balance at April 27, 2007	<u>\$ 1,602,000</u>	<u>\$ 4,698,000</u>	<u>\$ 7,978,000</u>	<u>\$ (3,163,000)</u>	<u>\$ 11,115,000</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

Table of Contents**AEROSONIC CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

	Three months ended	
	April 27, 2007	April 28, 2006
Cash flow from operating activities:		
Net income	\$ 62,000	\$ 583,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation	12,000	20,000
Depreciation	127,000	184,000
Amortization	6,000	3,000
Gain on the disposal of property	(264,000)	(33,000)
Changes in operating assets and liabilities:		
Receivables	972,000	(1,154,000)
Income taxes receivable and payable	40,000	115,000
Costs less estimated losses in excess of billings	-	(94,000)
Inventories	56,000	(15,000)
Prepaid expenses	(3,000)	(138,000)
Other assets	(5,000)	(2,000)
Accounts payable, trade	207,000	(103,000)
Compensation and benefits	(78,000)	121,000
Accrued expenses and other liabilities	(106,000)	105,000
	<u>1,026,000</u>	<u>(408,000)</u>
Cash flow from investing activities:		
Proceeds from the sale of property	385,000	58,000
Capital expenditures	(49,000)	(69,000)
	<u>336,000</u>	<u>(11,000)</u>
Cash flow from financing activities:		
Proceeds from revolving credit facility	-	36,000
Purchase of treasury stock	-	(2,467,000)
Principal payments on long-term debt and notes payable	(60,000)	(57,000)
	<u>(60,000)</u>	<u>(2,488,000)</u>
Net increase (decrease) in cash and cash equivalents	1,302,000	(2,907,000)
Cash and cash equivalents at beginning of period	1,276,000	3,106,000
	<u>\$ 2,578,000</u>	<u>\$ 199,000</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 40,000	\$ 29,000
	<u>\$ 40,000</u>	<u>\$ 30,000</u>
Income taxes	\$ 40,000	\$ 30,000
	<u>\$ 40,000</u>	<u>\$ 30,000</u>

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The accompanying notes are an integral part of these condensed consolidated financial statements

7

Table of Contents**AEROSONIC CORPORATION AND SUBSIDIARY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X of the U.S. Securities and Exchange Commission (**SEC**). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated balance sheet at January 31, 2007 has been derived from the audited consolidated financial statements, but does not include all of the disclosures required by generally accepted accounting principles. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended January 31, 2007 (the **2007 Form 10-K**) that the Company filed with the SEC on May 1, 2007. Operating results for the three months ended April 27, 2007 are not necessarily indicative of the results that may be expected for the year ending January 31, 2008.

The Company has a January 31 fiscal year end. Accordingly, all references in this quarterly report on Form 10-Q to the first quarter mean the first quarter ended on the last Friday of April of the referenced fiscal year. For example, references to the first quarter of fiscal year 2008 mean the first quarter ended April 27, 2007. **Note 2 Business**

The Company is principally engaged in one business segment, which is the manufacture and sale of aircraft instruments. The Company has two operating divisions in two locations. The two principal divisions are the Clearwater Instruments, which primarily manufactures both mechanical and digital altimeters, airspeed indicators, rate of climb indicators, microprocessor controlled air data test sets, and a variety of other flight instrumentation, and Avionics Specialties, Inc. (**Avionics**) in Earlysville, Virginia, which maintains three major product lines in the aircraft instrument segment: (1) angle of attack stall warning systems; (2) integrated multifunction probes, which are integrated air data sensors; and (3) other aircraft sensors and monitoring systems.

During the three months ended April 27, 2007, the Company had no customers that represented more than 10% of total revenues. During the three months ended April 28, 2006, sales to Korea Aerospace Industries, Ltd. and The Boeing Company represented approximately 15% and 10%, respectively, of total revenues.

On March 9, 2007, Aerosonic Corporation (**Aerosonic** or the **Company**) announced the consolidation of the manufacturing functions of its Earlysville, Virginia, operation into its Clearwater, Florida facility. The Earlysville location is home to Avionics Specialties, Inc., Aerosonic's wholly owned subsidiary. The consolidation is a continuation of the Company's actions to be more responsive to customers' demands while increasing efficiencies. The existing Engineering and Marketing functions will remain in the Earlysville area but will relocate to a new facility more appropriately sized for the Company's planned streamlined structure. The Company plans to sell the Earlysville facility. Avionics Specialties manufactures angle of attack stall warning systems, integrated multifunction probes, which are integrated air data sensors, and other aircraft sensors and monitoring systems. The Company will continue the manufacturing of those products at its Clearwater, Florida facility. The Company will also execute the consolidation plan in a phased approach to maintain delivery schedules and product quality.

Note 3 Inventories

The Company values inventory at the lower of cost (using a method that approximates the first-in, first-out method) or net realizable value. Reviews of inventory quantities on hand have been conducted to determine if usage or sales history supports maintaining inventory values at full cost or if it has instead become necessary to record a provision for slow moving, excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements for the subsequent twelve months and actual usage for the previous two years. During production, the Company uses standards to estimate product costs. These standards are reviewed and updated, generally monthly, by management. Differences between standard and actual costs have historically not been material.

Inventories at April 27, 2007 and January 31, 2007 consisted of the following:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Raw materials	\$ 4,554,000	\$ 4,384,000

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Work in process	1,687,000	1,880,000
Finished goods	172,000	163,000
Reserve for obsolete and slow moving inventory	(660,000)	(618,000)
	<u>\$ 5,753,000</u>	<u>\$ 5,809,000</u>

Table of Contents**Note 4 Joint Strike Fighter Development Program**

During fiscal 2003, the Company secured a long-term fixed-price contract for the development of instrumentation for the Joint Strike Fighter (JSF) program. Costs and estimated losses to date on this contract as of April 27, 2007 and January 31, 2007 are as follows:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Costs incurred to date	\$ 18,152,000	\$ 18,072,000
Estimated losses	(3,237,000)	(3,245,000)
	<u>14,915,000</u>	<u>14,827,000</u>
Less billings to date	(14,939,000)	(14,927,000)
	<u>\$ (24,000)</u>	<u>\$ (100,000)</u>

During the quarter ended April 27, 2007, the Company continued supporting the flight testing of the A1 aircraft while furthering the development of its IMFP-based air data system.

The JSF program is a customer-funded product development program that is presently expected to generate total project revenues of approximately \$16,293,000. As of April 27, 2007, based on project progress, the Company has recognized revenues of approximately \$14,915,000 for the JSF project. The estimate for this program changes with each technological breakthrough and setback and the Company will continue to adjust its estimate to reflect the most current view of the program's costs. The revenues and costs recorded in each quarter reflect the Company's best estimate of the program's expected profitability or loss at that point in time. Billings in excess of costs less estimated losses of approximately \$24,000 at April 27, 2007 and \$100,000 at January 31, 2007 are included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheet.

Note 5 Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities as of April 27, 2007 and January 31, 2007 were approximately \$1,583,000 and \$1,692,000, respectively.

A substantial portion of these expenses are related to amounts owed to subcontractors who participate in the Company's product development programs, as shown below:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Product development programs	\$ 704,000	\$ 944,000
Plant shutdown	227,000	-
Other accrued expenses	652,000	748,000
	<u>\$ 1,583,000</u>	<u>\$ 1,692,000</u>

Note 6 Restructuring Costs

In accordance with Statement of Financial Accounting Standards No. 112, Employers' Accounting for Post Employment Benefits (SFAS 112) and Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146), we recognized a total of approximately \$282,000 in restructuring costs for the three months ended April 27, 2007. The following table summarizes our restructuring activity for the three months ended April 27, 2007:

	<u>Severance and Benefits</u>	<u>Facilities and Other</u>	<u>Total</u>
Balance as of January 31, 2007	\$ -	\$ -	\$ -
Severance and Benefits	238,000	-	238,000
Other	-	44,000	44,000

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	<u>Severance and Benefits</u>	<u>Facilities and Other</u>	<u>Total</u>
Total Restructuring Charges	238,000	44,000	282,000
Less: Cash Paid	11,000	44,000	55,000
Balance of non-cash restructuring charges as of April 27, 2007	\$ 227,000	\$ -	\$ 227,000

The above charges are based on estimates that are subject to change. The cash expenditures relating to workforce reductions are expected to be paid over the next few quarters. We anticipate recording additional charges related to our workforce and facility reductions over the remaining quarters in fiscal year 2007, based upon our current restructuring schedule, which is subject to change.

Table of Contents**Note 7 Long Term Debt and Notes Payable**

The Company's credit facilities are with Wachovia Bank, N.A. (**Wachovia**). The facilities total approximately \$5.7 million, and include a 15 year term loan of approximately \$3.0 million that is collateralized by the Company's real estate in Clearwater, Florida, a revolving credit facility of approximately \$2.5 million, and a seven year equipment loan of approximately \$0.2 million. All of the Company's other assets (i.e., other than the Clearwater real estate) are subject to liens collateralizing all three of the loans from Wachovia. This includes all assets of Avionics Specialties, Inc., the Company's wholly owned subsidiary.

Long term debt and notes payable at April 27, 2007 and January 31, 2007 consisted of the following:

	<u>April 27, 2007</u>	<u>January 31, 2007</u>
Mortgage note payable - Wachovia	\$ 2,383,000	\$ 2,433,000
Equipment term loan	121,000	131,000
	<u>2,504,000</u>	<u>2,564,000</u>
Less current maturities	(230,000)	(230,000)
	<u>\$ 2,274,000</u>	<u>\$ 2,334,000</u>
Long-term debt and notes payable, less current maturities		

Covenants

The Company's long-term debt agreements with Wachovia contain certain financial and other restrictive covenants, including the requirement to maintain: (i) at all times, a ratio of total liabilities to tangible net worth that does not exceed 1.30 to 1.00; and (ii) at the end of each fiscal quarter, a cash flow coverage ratio (with regard to the debt service) of at least 1.25 to 1.00. As of April 27, 2007, the Company was in compliance with these financial covenants.

The Wachovia loan agreement subjects the Company to a number of additional covenants that, among other things, require the Company to obtain consent from the lender prior to making a material change of management, guarantee or otherwise become responsible for obligations of any other person or entity or assuming or becoming liable for any debt, contingent or direct, in excess of \$100,000.

The Company's ability to maintain sufficient liquidity and compliance with these covenants in fiscal year 2008 and beyond is highly dependent upon achieving expected operating results. Failure to achieve expected operating results and compliance with covenants could have a material adverse effect on the Company's liquidity and operations in fiscal year 2008 and beyond, and could require implementation of further measures, including deferring planned capital expenditures, reducing discretionary spending, and/or, if necessary, selling assets.

Note 8 Accounting for Stock-Based Compensation

Effective February 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, Accounting for Stock-Based Compensation (SFAS 123R), which requires stock-based compensation to be measured at the fair value of the awards on the grant date. The Company elected a modified prospective method of transition as permitted by SFAS 123R. Under this transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that were outstanding at the date of adoption, and accordingly, periods prior to the adoption are not restated. For the three-month periods ended April 27, 2007 and April 28, 2006, total equity-based compensation of approximately of \$10,000 and \$9,000, respectively, related to stock options previously granted was included in operating expense.

Note 9 Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided against the future benefit of deferred tax assets if it is determined that it is more likely than not that the future tax benefits associated with the deferred tax asset will not be realized.

Table of Contents

Effective February 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (**FASB**) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (**FIN 48**), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a more likely than not threshold. Upon adoption of FIN 48, primarily due to uncertainty with respect to extraterritorial income tax credits, the Company reduced deferred tax assets and a recorded charge against retained earnings of \$225,000 representing the cumulative effect of the change in accounting principle.

Note 10 Earnings per Share

Basic earnings per share are based upon the Company's weighted average number of common shares outstanding during each period. Diluted earnings per share are based upon the weighted average number of common shares outstanding during each period, assuming the issuance of common shares for all dilutive potential common shares outstanding during the period, using the treasury stock method.

	Three Months Ended	
	April 27, 2007	April 28, 2006
Weighted average shares outstanding - basic	3,567,515	3,751,127
Dilutive effect of stock options	12,177	13,225
Weighted average shares outstanding - diluted	3,579,692	3,764,352

Note 11 Commitments, Contingencies and Subsequent Events

The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable. The following table outlines the Company's accrual that existed at the close of each fiscal period:

	April 27, 2007	January 31, 2007
Environmental Accrual	\$ 67,000	\$ 70,000

The environmental accrual is included in accrued expenses and other liabilities in the accompanying condensed consolidated balance sheets.

The Company's revolving credit facility with Wachovia is set to expire June 30, 2007. The Company is currently in discussions with Wachovia concerning the renewal of this credit facility, and the Company expects that the credit facility will be renewed in advance of the June 30, 2007 expiration date.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (MD&A)****Results of Operations**

Revenues for the first quarter of 2008 decreased approximately \$1,656,000 when compared to the first quarter of 2007. Core instrument and spare parts sales decreased by approximately \$1,127,000 when compared to the first quarter of 2007. The decrease in core instrument sales was driven primarily by lower integrated multifunction probe (IMFP) sales to Korea Aerospace Industries, Ltd. as well as reduced altimeter and airspeed sales, due to a lower order rate. Repair revenues decreased approximately \$348,000 due to the consolidation of the Wichita operation as well as reduction in volume for the Virginia operations. Revenue from the Joint Strike Fighter (JSF) development program decreased by approximately \$181,000 as the Company's development program nears completion.

Gross profit for the first quarter of 2008 decreased by approximately 35%, or approximately \$967,000, to approximately \$1,775,000 when compared to approximately \$2,742,000 for the first quarter of 2007. Approximately 55% of this decrease was due to a reduction in volume, while the remainder was due to a shift in product mix. However, despite the decrease in JSF revenues noted above, the gross profit for that program (which is reflected largely in the product mix shift) increased by approximately \$229,000, as the gross profit impact of the JSF program for the first quarter of 2008 was break-even.

Selling, general and administrative expenses for the first quarter of 2008 decreased approximately \$270,000 when compared to the first quarter of 2007. This decrease was attributable to lower incentive compensation and benefit costs as well as reductions in the usage of outside services.

Net interest expense increased approximately \$11,000 for the first quarter of 2008 when compared to the first quarter of 2007. The Company had recognized non-recurring interest income on an income tax receivable in the first quarter of fiscal year 2007.

Miscellaneous income increased approximately \$228,000 for the first quarter of 2008 when compared to the first quarter of 2007. This increase was due to the sale of the Company's Wichita, Kansas property as well as the sale of machinery and equipment that was no longer required for operations.

Income tax expense increased approximately \$41,000 for the first quarter of 2008 when compared to the first quarter of 2007. This increase was primarily due to the phase-out of extraterritorial income tax credits and was partially offset by lower earnings.

Liquidity and Capital Resources

Cash provided by operating activities was approximately \$1,026,000 for the three months ended April 27, 2007, an increase in cash provided of approximately \$1,434,000 when compared to the three months ended April 28, 2006. This increase in cash provided is primarily attributable to:

A decrease in net income of approximately \$521,000;

A decrease due to the gain on the sale of assets of approximately \$231,000;

A decrease due to accrued expenses and other liabilities of approximately \$211,000 due primarily to further reductions in liabilities to suppliers for the JSF contract;

A decrease due to compensation and benefits liabilities of approximately \$199,000;

A decrease due to net income taxes receivable and payable of approximately \$75,000 due to a reduced level of income tax refunds available; and

A decrease due to a reduction in other assets of approximately \$3,000.

These increases in cash usage were partially offset by the following increases in cash provided:

Table of Contents

An increase due to accounts receivable of approximately \$2,126,000 resulting from improvements and collections as well as decreases in sales volume;

An increase due to accounts payable of approximately \$310,000 as the Company increases the amount of outsourced parts and components;

An increase resulting from a decrease in prepaid expenses of approximately \$135,000 due to a shift in paying for insurance premiums with cash instead of utilizing premium financing;

An increase due to a decrease in costs less estimated losses in excess of billings of approximately \$94,000 resulting from continuing progress on the JSF program; and

An increase of approximately \$71,000 due to a reduction in inventories.

Cash provided by investing activities increased approximately \$347,000 in the first three months of fiscal year 2008 as compared to the same period in fiscal year 2007 due primarily to the disposition of the Company's Wichita, Kansas location as well as some machinery and equipment that was no longer needed by the Company.

Cash provided by financing activities for the first three months of fiscal year 2008 increased approximately \$2,428,000 when compared to the three months ended April 28, 2006. The Company had a non-recurring cash outflow of approximately \$2,467,000 during the three months ended April 28, 2006 due to the Company's repurchase of approximately 9.31% of its outstanding common stock during the period.

Future capital requirements depend on numerous factors, including research and development, expansion of product lines and other factors. Management believes that cash and cash equivalents, together with the Company's current borrowing arrangements will provide for these necessary expenditures. Furthermore, the Company may develop and introduce new or enhanced products, respond to competitive pressures, invest or acquire businesses or technologies or respond to unanticipated requirements or developments, which would require additional resources.

The Company's ability to maintain sufficient liquidity in fiscal year 2008 and beyond is highly dependent upon achieving expected operating results. Failure to successfully achieve these results could have a material adverse effect on the Company's liquidity and operations in fiscal year 2008, and could require implementation of curative measures, including deferring planned capital expenditures, reducing discretionary spending, and/or, if necessary, selling assets.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon the accompanying unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of those financial statements and this Quarterly Report on Form 10-Q requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure items, including disclosure of contingent assets and liabilities, at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions, and as a result of trends and uncertainties identified above under "Results of Operations" and "Liquidity and Capital Resources". Such differences could be material.

Set forth below is a discussion of the Company's critical accounting policies. The Company considers critical accounting policies to be those (i) that require the Company to make estimates that are highly uncertain at the time the estimate is made, (ii) for which a different estimate which could have been made would have a material impact on the Company's financial statements, (iii) that are the most important and pervasive policies utilized, and (iv) that are the most sensitive to material change from external factors. Additionally, the policies discussed below are critical to an understanding of the financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimates about the effect of matters that are highly uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The impact and any associated risks related to these policies on business operations is discussed throughout this MD&A where such policies affect reported and expected financial results.

Senior management has discussed the development and selection of the critical accounting estimates and the related disclosure included herein with the Audit Committee of the Board of Directors.

Table of Contents

Revenue Recognition

The Company manufactures most of its products on a build-to-order basis and ships products upon completion. The Company has a policy of strict adherence to the provisions of SEC Staff Accounting Bulletin 104 (**SAB 104**) in order to accurately state its revenues in each accounting period. For certain situations, some judgment is required, but most sales have clear revenue recognition criteria.

Revenue sources for product sales are largely from sales to commercial and government customers. The majority of customer sales terms are F.O.B. origin, although some customer terms are F.O.B. destination. For those customers where terms are origin , revenue is generally recognized upon shipment, unless additional prevailing factors would not be in accordance with the revenue recognition requirements of SAB 104. For those customers whose terms are destination , revenue is generally not recognized until goods arrive at the customers premises and all other revenue recognition criteria are met.

The Company experiences a certain degree of sales returns that varies over time. Generally such returns occur within no more than 90 days after shipment by the Company to its customers. In accordance with Statement of Financial Accounting Standards No. 48 (**SFAS 48**) Revenue Recognition When Right of Return Exists, the Company is able to make a reasonable estimation of expected sales returns based upon history and as contemplated by the requirements of SFAS 48. For example, sales returns may occur if delivery schedules are changed by customers after products have shipped or if products are received by customers but do not meet specifications. In such cases, customers may choose to return products to the Company. Absent such circumstances, customers do not have a right to return products if the Company has met all contractual obligations. The Company has established a sales return reserve that approximates an expected level of sales returns over a 90-day period.

From time to time, the Company will jointly develop products with its customers for future applications. In such circumstances, the Company recognizes revenue on a percentage-of-completion basis, measured by the percentage of costs incurred to date to estimated total costs for the contract. In situations where the Company estimates a loss on a contract, the entire estimated loss is immediately recognized in the financial statements. This method is used because management considers expended costs to be the best available measure of progress on the contracts. The percentage of completion contract costs include direct labor, material, subcontracting costs, test facilities, and other indirect costs as allocated. Other operating costs are charged to expense as incurred. During fiscal 2003, the Company secured one long-term fixed-price contract for the development of instrumentation for the JSF program.

Occasionally the Company enters into research and development contracts with customers. The Company accounts for such contracts on the basis of the lesser of non-refundable cash versus percentage of completion.

Accounts Receivable Allowance for Doubtful Accounts and Credit Losses

The Company continuously evaluates its customers and provides reserves for anticipated credit losses as soon as collection becomes compromised. The Company does maintain a limited reserve in anticipation that smaller accounts may become a collection issue, which occurs from time to time based on historical experience. However, most of the Company s customers are financially sound and the Company s history of bad debts is relatively low. While credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that have been experienced in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers.

Provisions for Excess and Obsolete Inventory Losses and Residual Value Losses

The Company values inventory at the lower of cost (using a method that approximates the first-in, first-out method) or net realizable value. Reviews of inventory quantities on hand have been conducted to determine if usage or sales history supports maintaining inventory values at full cost or if it has instead become necessary to record a provision for slow moving, excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements for the subsequent twelve months. Estimates of future product demand may prove to be inaccurate, in which case the Company may understate or overstate the provision required for excess and obsolete inventory. Although the Company endeavors to ensure the accuracy of forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of inventory and consequently reported operating results.

Table of Contents

Work In Process Inventories

Management employs certain methods to estimate the value of work in process inventories for financial reporting purposes. Company practice has been to conduct cycle counts of inventory at its Clearwater, Florida and Earlysville, Virginia operations throughout the year. Generally, for items that are in process at the end of a fiscal year, management will make an estimate during the cycle counting process regarding the percentage of completion of such items in order to accurately reflect costs incurred to date on the production of the items that are still in process. These estimates are affected by the nature of the operation at which the items are located at the time a physical inventory is conducted, and are subject to judgment.

Manufacturing Overhead Cost Application

The Company establishes its inventoriable cost of manufacturing overhead by calculating its overhead costs as a percentage of direct labor and applying that percentage to direct labor that has been charged to inventory on a twelve month rolling average basis. This application percentage is reviewed at least quarterly and is adjusted at least annually.

Deferred Tax Asset Valuation Allowance

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (**SFAS**) No. 109, Accounting for Income Taxes. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided against the future benefit of deferred tax assets if it is determined that it is more likely than not that the future tax benefits associated with the deferred tax asset will not be realized.

Long-Lived Assets

Management periodically evaluates long-lived assets for potential impairment and will record an impairment charge whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As of April 27, 2007 and January 31, 2007, management does not believe that any long-lived assets are impaired.

The Company will capitalize production costs for computer software that is to be utilized as an integral part of a product when both (a) technological feasibility is established for the software and (b) all research and development activities for the other components of the product have been completed. Amortization is charged to expense at the greater of the expected unit sales versus units sold or the straight line method for a period of three years from the date the product becomes available for general release to customers.

Other Accounts Affected by Management Estimates

From time to time, management will utilize estimates when preparing the financial statements of the Company. Such estimates include allowances for doubtful accounts, reserves for warranty and sales returns, depreciation, amortization and other accruals.

The Company has established a provision for warranty claims in anticipation of a certain degree of warranty activity, which generally is a minimal expense. This provision is based upon recent warranty experience.

Management also uses estimates in calculating the percentage of completion of the JSF program. These estimates have a significant impact on Costs less estimated losses in excess of billings included in the Company's consolidated balance sheets.

Off-Balance Sheet Arrangements

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

Contractual Obligations

There have been no material changes to our commitments and contingencies from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2007.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary market risk exposure for the Company is interest rate risk. The Company's existing debt facilities require the payment of interest at a variable rate equal to one-month LIBOR plus 300 basis points. Consequently, the Company has an exposure to fluctuations in the underlying interest rate for its debt facilities. As an example, the prevailing rate for one-month LIBOR at April 27, 2007 was approximately 5.32%. Therefore, the Company's borrowing cost under its existing debt facilities as of April 27, 2007 was 8.32%. For each \$1.0 million of borrowing at the April 27, 2007 one-month LIBOR interest rate, the Company's annual interest cost would be approximately \$83,000. Significant fluctuations in the underlying LIBOR interest rate index could have a material impact on the Company's financial statements. Presently, the Company does not utilize any financial instruments to manage this interest rate risk.

The Company also has a market risk exposure to fluctuations in foreign exchange rates. The Company has a limited number of purchase and sale transactions that are denominated in British Pounds. The Company's strategy in managing this risk exposure is to match the timing of British Pound-denominated cash inflows and outflows. However, foreign currency receipts are immediately converted to U.S. Dollars when received, while foreign currency payments are converted from the U.S. Dollar to the currency denomination of the payment when foreign currency payments are made.

ITEM 4. CONTROLS AND PROCEDURES.

As of April 27, 2007, Aerosonic's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of Aerosonic's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) and concluded that such disclosure controls and procedures were effective as of such date.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, at this time, there are no claims or legal actions that will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2007 have not materially changed.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
31.1	<u>Section 302 Certification</u>
31.2	<u>Section 302 Certification</u>
32.1	<u>Section 906 Certification</u>
32.2	<u>Section 906 Certification</u>

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: June 11, 2007

AEROSONIC CORPORATION

/s/ David A. Baldini

David A. Baldini

Chairman, President and Chief Executive Officer

Date: June 11, 2007

AEROSONIC CORPORATION

/s/ Gary E. Colbert

Gary E. Colbert

Executive Vice President and Chief Financial Officer